

LEGISLATIVE AUDIT COMMITTEE

MINUTES

January 23, 2008

Please note: These are summary minutes. The minutes are also accompanied by an audio recording. For each action listed, the minutes indicate the approximate amount of time in hours, minutes, and seconds that has elapsed since the start of the meeting. This time may be used to locate the activity on the audio recording.

An electronic copy of these minutes and the audio recording may be accessed from the Legislative Audit Division homepage at http://www.leg.mt.gov/css/audit/meeting_info.asp.

*To view the minutes, locate the meeting date and click on **Minutes**. To hear the audio recording, click on the date link at **Listen**. Note: You must have Real Player installed to listen to the audio recording.*

Members Present

Sen. Joe Balyeat
Sen. Greg Barkus
Sen. Steve Gallus
Sen. Dave Lewis
Sen. Lynda Moss
Sen. Mitch Tropila

Rep. Bill Beck
Rep. Bill Glaser
Rep. Hal Jacobson
Rep. John Sinrud

Members Excused

Rep. Betsy Hands
Rep. Bill Wilson

Staff Present

Scott Seacat, Legislative Auditor
Tori Hunthausen, Chief Deputy Legislative Auditor
Jim Gillett, Deputy Legislative Auditor
Monica Huyg, Legal Counsel
Becky Buckmaster, Administrative Support Manager

The Legislative Audit Committee met January 23, 2008, in Room 102 of the State Capitol. Senator Joe Balyeat, Chairman, called the first day's meeting to order at 9:00 a.m., noting the presence of a quorum.

Minutes approval – The November minutes were approved. Motion by: Senator Moss, **motion carried**.

AUDIT REPORTS

0:00:42 **STATE OF MONTANA, 07-01 (Financial Audit)**

Report presented by: Pearl Allen, Legislative Auditor

Present from the agency: Paul Christofferson, Administrative and Financial Services
Division Administrator
Julie Feldman, Accounting Bureau Chief
Janet Atchison, Accounting
Wendy Feth, Accounting

Agency response presented by: Paul Christofferson

Handouts: CAFR by Paul Christofferson

Concerns/Discussion topics: Investment disclosures; state and federal revenues/expenditures; fund balances; audit control deficiencies; improvements in infrastructure.

Committee requests: Pie chart showing state versus federal revenue breakdowns; a comparison of this year's unreserved undesignated fund balance to past years.

Actions taken: None

Motion: Report received, reviewed, filed, and copies distributed in accordance with law.
Motion by: Senator Moss, **motion carried.**

0:34:24 **MONTANA SINGLE AUDIT REPORT, 07-02 (Federal Single Audit)**

Report presented by: Cindy Jorgenson, Legislative Auditor

Present from the agency: Mark Bruno, Lead Budget Analyst, Office of Budget and Program Planning

Handouts: Federal awards document from Cindy Jorgenson (Exhibit 1)

Agency response presented by: Mark Bruno

Concerns/Discussion topics: Additional findings not in the report, non-compliance issues; federal awards; danger of loss of federal funds; internal controls.

Actions taken: None

Motion: Report received, reviewed, filed, and copies distributed in accordance with law.
Motion by: Representative Jacobson, **motion carried.**

0:54:48 **BOARD OF INVESTMENTS, 07-04 (Financial Audit)**

Report presented by: Vickie Rauser, Legislative Auditor

Present from the board: Carroll South, Executive Director
 Geri Burton, Deputy Director
 Gayle Moon, Accounting Fiscal Manager

Board response presented by: Carroll South

Concerns/Discussion topics: Investment areas; withdrawals from government agencies in the STIP; board member make-up and credentials; board investment process and direction; STIP and possible future legislation, board control in the STIP process, SIV defaults, liquidity issues; website yield postings; government subsidization of investments.

Committee requests: Notification as soon as possible of SIV default occurrences and other updates when available.

Actions taken: None

Motion: Report received, reviewed, filed, and copies distributed in accordance with law. Motion by: Senator Moss, **motion carried** with one member voting nay.

02:13:25 **PUBLIC EMPLOYEES' RETIREMENT BOARD, 07-08 (Financial Audit)**

Report presented by: Jeane Carstensen-Garrett, Legislative Auditor

Present from the board: Roxanne Minnehan, Executive Director
 Barbara Quinn, Fiscal Services Bureau Chief
 Diann Levandowski, Assistant Fiscal Services Bureau Chief

Board response presented by: Roxanne Minnehan

Concerns/Discussion topics: Employer contributions with regard to reduction or increase adjustments; funding amortization periods.

Actions taken: None

Motion: Report received, reviewed, filed, and copies distributed in accordance with law. Motion by: Senator Barkus, **motion carried**.

02:19:57 **THE UNIVERSITY OF MONTANA, 07-10 (Financial Audit)**

Report presented by: Laura Norris, Legislative Auditor

Present from UM: Dan Jenko, Assistant Director of Financial Services
 John Badovinac, Controller, Montana Tech of UM
 Kathy Burgmeier, Director, Internal Audit
 Mark Pullium, Director Business Services
 Robert Durringer, Vice President, Administration and Finance
 John McCormick, Associate Director, Business Services

UM response presented by: Robert Duringer

Concerns/Discussion topics: Tuition increases; UM investment strategies.

Actions taken: None

Motion: Report received, reviewed, filed, and copies distributed in accordance with law.
Motion by: Senator Moss, **motion carried.**

02:26:51 **MONTANA STATE UNIVERSITY, 07-11 (Financial Audit)**

Report presented by: Chris Darragh, Legislative Auditor

Present from MSU: Laura Humberger, Assistant Vice President for Financial Services, MSU at Bozeman
Craig Roloff, Vice President for Administration and Finance, MSU at Bozeman
Ila Saunders, Interim Director of Internal Audit

MSU response presented by: Laura Humberger

Concerns/Discussion topics: None

Actions taken: None

Motion: Report received, reviewed, filed, and copies distributed in accordance with law.
Motion by: Senator Moss, **motion carried.**

02:30:11 **DAWSON COMMUNITY COLLEGE, 07C-09 (Contract Audit)**

Report presented by: Robert Denning of Denning, Downey & Associates

Present from DCC: Dr. James Cargill, President
Justin M. Cross, Dean of Administrative Services

DCC response presented by: Robert Denning

Concerns/Discussion topics: Enrollment declines; college expansion costs and student tuition increases; previous audit deficiencies.

Actions taken: None

Motion: Report received, reviewed, filed, and copies distributed in accordance with law.
Motion by: Senator Moss, **motion carried.**

02:40:18 **MONTANA GUARANTEED STUDENT LOAN PROGRAM, 07-06 (Financial Audit)**

Report presented by: Lena Tamcke, Legislative Auditor

Present from MGSLP: Bruce Marks, Director, Office of the Commissioner of Higher Education
Robin Graham, Chief Financial Officer, Montana Guaranteed Student Loan Program

MGSLP response presented by: Bruce Marks

Concerns/Discussion topics: Student loan debt defaults; investments with Sallie Mae.

Actions taken: None

Motion: Report received, reviewed, filed, and copies distributed in accordance with law.
Motion by: Senator Moss, **motion carried.**

02:44:36 **UNIVERSITY SYSTEM ENROLLMENT PROJECTIONS**

Report presented by: Sheila Stearns, Commissioner of Higher Education
Tyler Trevor, Associate Commissioner

Concerns/Discussion Topics: Decreases in enrollment; building, university building projects; Native American centers; student services and opportunities.

Handouts: Statistical information (Exhibit 2)

Actions taken: None

04:32:35 **OFFICE OF PUBLIC INSTRUCTION, 07-19 (Financial-Compliance Audit)**

Report presented by: Jennifer Erdahl, Legislative Auditor

Present from OPI: Joan Anderson, Operations Assistant Supervisor
Julia Dilly, Centralized Services Division Administrator

OPI response presented by: Joan Anderson

Concerns/Discussion topics: Software as an asset not expenditure.

Actions taken: None

Motion: Report received, reviewed, filed, and copies distributed in accordance with law.
Motion by: Senator Barkus, **motion carried.**

04:43:07 **STATE GRAIN LABORATORY OPERATIONS AND FUTURE VIABILITY,
MONTANA DEPARTMENT OF AGRICULTURE, 07P-10 (Performance Audit)**

Report presented by: Diedra Murray, Legislative Auditor

Present from SGL: Ron de Yong, Director
Joel Clairmont, Deputy Director & Administrator, Agricultural
Development Division
Kathy Seacat, Administrator, Central Services Division
Craig Essenbagers, Chief, State Grain Laboratory Bureau

SGL response presented by: Ron de Yong

Concerns/Discussion topics: Fees; signage enforcement issues; surveys regarding viability; Montana Wheat and Barley Committee and other grants; private labs versus the state lab in testing issues.

Actions taken: None

Motion: Report received, reviewed, filed, and copies distributed in accordance with law.
Motion by: Representative Jacobson, **motion carried.**

05:14:55 **STATE WEB SERVER SECURITY AUDIT, 08DP-02 (Information Systems Audit)**

Report presented by: Dale Stout, Legislative Auditor

Present from the agency: Janet R. Kelly, Director
Dick Clark, Chief Information Officer
Dawn Pizzini, Service Continuity Bureau Chief

Agency response presented by: Janet Kelly

Concerns/Discussion topics: Wireless network security issues

Committee requests: Update on the corrective actions regarding the two recommendations in the report as soon as they are implemented; copy of new security policy when available.

Actions taken: None

Motion: Report received, reviewed, filed, and copies distributed in accordance with law.
Motion by: Senator Barkus, **motion carried.**

05:42:45 **STATEWIDE ACCOUNTING, BUDGETING, AND HUMAN RESOURCE SYSTEM,
SABHRS, 08DP-03 (Information Systems Audit)**

Report presented by: Nathan Tobin, Legislative Auditor

Present from the agency: Janet R. Kelly, Director
Paul Christofferson, Administrator, Administrative and Financial
Services Division
Ed Glenn, Finance Co-Manager

Agency response presented by: Janet Kelly

Concerns/Discussion topics: Corrective actions; Recommendation 2.

Committee requests: Periodic updates on the corrective actions as they are implemented.

Actions taken: None

Motion: Report received, reviewed, filed, and copies distributed in accordance with law.
Motion by: Representative Beck, **motion carried.**

05:53:10 **MONTANA STATE FUND, 07-05 (Financial Audit)**

Report presented by: Laurie Barrett, Legislative Auditor

Present from the agency: Laurence Hubbard, President/CEO
Mark Barry, Vice-President of Corporate Support
Patti Grosfield, Internal Auditor
Rene Silverthorne, Controller
Kevin McCaughey, Financial Analyst

Agency response presented by: Laurence Hubbard

Concerns/Discussion topics: None

Actions taken: None

Motion: Report received, reviewed, filed, and copies distributed in accordance with law.
Motion by: Representative Jacobson, **motion carried.**

05:59:41 **Other Business**

The Montana Highway Patrol's annual report was handed out to the Committee with updates requested during an audit two years ago (Attachment 1). Scott Seacat asked the Committee to e-mail any questions regarding this to him. If necessary, a representative from the Montana Highway Patrol will be available at the next meeting.

The Committee acknowledged the retirement of Scott Seacat and discussed procedures, as well as actions that will need to be performed to provide for his replacement. A sub-committee will be appointed in the future for this undertaking.

Representative Sinrud inquired about the past Legislative Audit Division issue regarding branch security, specifically the Executive Branch having access to desktop computers that contain sensitive confidential information. Mr. Seacat responded that a security officer has been hired and there is a new network administrator that talked to LAD about the security that needs to be maintained. There are plans and actions being taken to secure the information.

Representative Beck asked about the status of the Insure Montana audit. He was assured that this was moved up on the list, a risk assessment will be done, and the Committee will be notified of the results.

Next Meeting Date

The next meeting of the Legislative Audit Committee will be at the call of the Chair sometime in late April/May timeframe.

There being no further business, the meeting was adjourned at 3:25 p.m.

Signed:

Sen. Lynda Moss, Secretary

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